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## FISCAL IMPACT REPORT

SPONSOR: Beffort DATE TYPED: 3/19/03 HB \_\_\_\_\_  
 SHORT TITLE: Severance Tax Permanent Fund Investment SB 607/aSCORC  
 ANALYST: Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Responses Received From  
 Department of Finance and Administration (DFA)  
 State Investment Council (SIC)

### SUMMARY

#### Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment lowers the minimal committed capital requirement from \$7.5 million to \$3.0 million for inclusion as New Mexico Private Equity Funds.

#### Synopsis of Original Bill

SB-607 decreases the requirement of minimum committed capital of a New Mexico private equity fund from \$15 million to \$7.5 million. It also requires semi-annual reporting on the New Mexico private equity investments in the Severance Tax Permanent Fund by the SIC to the Legislature.

### FISCAL IMPLICATIONS

The FY02 returns for the Land Grant Permanent Fund (LGPF) and Severance Tax Fund (STPF) were -7.9 percent and -8.7 percent, respectively. The LGPF outpaced its policy target by 20 basis points while the STPF under performed its policy target by 60 basis points. US equities

missed the policy target by 50 basis points due in part to the internally managed large capitalization active portfolio. Private equity for the LGPF and STPF returned -21.3 percent and -24.3 percent respectively versus a policy target of -33.3 percent.

#### **OTHER SUBSTANTIVE ISSUES**

A portion of STPF is allocated to economically targeted investments. For example, STPF may purchase certificates of deposit in New Mexico financial institutions and may purchase participations of up to 80 percent of real-estate-related bank loans. Legislation enacted in 2000 authorized SIC to invest in film ventures; currently, one movie is in production. Furthermore, pursuant to the statutes creating the New Mexico venture capital program, the state investment officer and the council are required to give consideration to investments in venture capital funds whose investments enhance the economic development objectives of the state, provided such investments offer a rate of return and safety comparable to other venture capital investments currently available. As of June 2002, STPF held \$73 million, or roughly 2.1 percent of the fund, in these non-market rate investments.

**SN/sb/njw**